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Approved For Release 2008/02/15 : CIA-RDP81B00401R002600010030-3

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**London Summit Issues:  
Big Six and EC Positions**

**General**

Leaders of the major developed nations are approaching the May summit from different points of view and with disparate aspirations. The British and Canadians regard it primarily as an opportunity to boost confidence in the international economy. The Japanese and Italians probably will try to maintain their customary low profiles, with Prime Minister Fukuda often following US leads and Prime Minister Andreotti backing any measures that promise relief for the hard-pressed Italian economy. The West Germans will be looking for ways to make good some of the recent deterioration in German-US relations. In addition, Chancellor Schmidt, like French President Giscard d'Estaing, is anxious to bolster his political standing at home. EC Commission President Jenkins will be seeking to gain recognition of Community jurisdiction over various economic matters.

Energy questions are likely to prove the most contentious, even though most conference participants share common goals of reducing oil dependency and increasing the use of coal and conventional nuclear power. Summit participants have widely varying views on the efficacy of safeguards to prevent proliferation of nuclear weapons. Canada's Trudeau is trying to enforce safeguards more rigorous than those advocated by any other country. Most governments want to move ahead with fast breeder development, although London still is undecided whether to pursue its program.

Non-nuclear energy questions also could be divisive. The Europeans and Japanese—who both consume much less energy relative to either population or GNP than the US—would resist any US initiative that implies this country has been the leader in energy conservation. They and the Canadians favor conservation, however, and would support a carefully worded pledge.

Trade also could prove a troublesome topic. Both the French and the British might resist a declaration of intent to work for substantial tariff cuts. The former believe today's flexible exchange rates easily swamp painstakingly negotiated tariff adjustments, while the British feel that hefty tariff cuts could seriously undermine their competitiveness. Jenkins and the European heads of government will resist any

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suggestion that agricultural trade be liberalized at the expense of the EC Common Agricultural Policy, which they regard as a cornerstone of European unity.

With the exception of a few small EC members represented at the summit by EC Commission President Jenkins, none of the participants agrees with LDC demands for immediate debt relief or for the common fund to finance commodity stocks. They all would prefer to work out international commodity agreements on a case-by-case basis and then determine whether some kind of common arrangement can be devised to fund the individual buffer stocks. A few countries—notably Italy and Japan—might balk at increasing aid volume to the developing countries.

The question of demand management policy will split the interests of Japan and West Germany from those of the remaining foreign countries. Japan and West Germany, the surplus countries, may resist pressure from the others to pledge whatever measures are needed to realize their growth forecasts for 1977. The Germans seem the more likely to yield. The value of such a pledge would be questionable, however, because the year will be half gone at the time of the summit, leaving little time to bring new policies to bear. The deficit countries probably would accept a vague pledge to continue deflationary policies. The EC Commission President would back strong pledges by both groups of countries.

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### Japan

Prime Minister Fukuda will maintain Japan's traditional low profile at the summit. The Japanese tendency to avoid the limelight and follow the US lead on many issues will be reinforced by Fukuda's reluctance to embroil himself in international controversy shortly before the closely-contested elections to the Diet's upper house. The nuclear energy issue is by far the Prime Minister's chief concern and the most contentious point between Tokyo and Washington.

#### General Economic Situation and Payments Financing

Prime Minister Fukuda believes Japan will be doing its fair share, or even more, to promote global economic expansion by attempting to meet its 6.7 percent real GNP growth target in the fiscal year that began on 1 April 1977. He opposes any hike in this target because of concern that greater stimulation will lead to more domestic and international inflation. Fukuda may even back off from a public statement at the London summit committing Japan to its growth target, [REDACTED]

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[REDACTED] This reluctance to put Japan's international prestige on the line would stem from the economy's recent disappointing growth performance, which will make meeting the target more difficult.

Despite Japan's strong international financial position, Fukuda is not prepared to launch any new initiatives on balance-of-payments financing for oil-importing deficit countries. Tokyo backs a greater role for the IMF because multilateral lending reduces the possibility of bilateral bailout requests. Japan probably would support increasing its lending capacity if pushed by the US. The influential Ministry of Finance opposes boosting Japan's IMF quota without a large commitment from OPEC countries.

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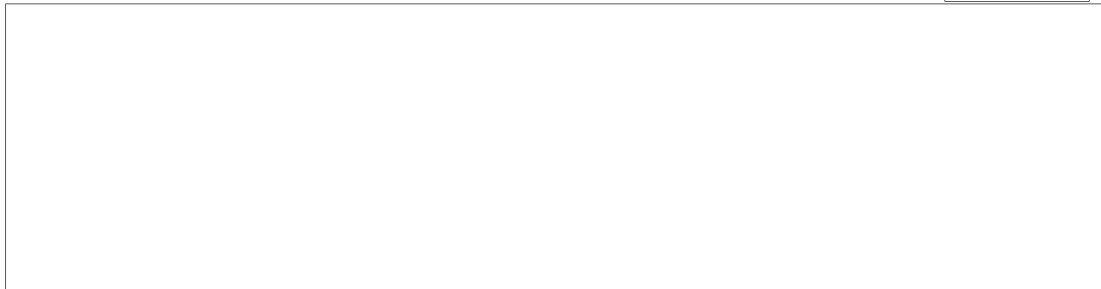
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## Energy

The most sensitive current issue for Japan is nuclear energy development, which Tokyo considers its primary alternative to relying on imported oil.

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As for other aspects of energy policy, Tokyo has established long-term goals and is counting largely on persuasion and tax incentives to promote conservation. In the IEA Tokyo always has been reluctant to set specific targets for reducing dependence on imported oil, fearing such targets would needlessly complicate relations

## North-South Relations

Although Tokyo is willing to become more involved with Southeast Asian LDCs, it has so far opposed any large increase in Japanese aid. In absolute terms, Japan's aid program is relatively small given its extensive economic ties with the LDCs. On other LDC issues, Japan opposes across-the-board debt relief, preferring to handle it on a case-by-case basis. Tokyo does not favor a common fund or buffer stocks for internationally traded commodities, although it will make a financial contribution if the US does. In dealing with the LDCs, Fukuda prefers to work through existing multilateral agencies rather than establish new institutions.

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### **West Germany**

Chancellor Schmidt's position at the summit will inevitably be affected by recent domestic political reversals and by the sharp controversy with the US over West Germany's contribution to worldwide economic recovery and the nuclear agreement with Brazil. Schmidt

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will sincerely want to help repair whatever damage may have been done to US-West German relations.

### **General Economic Situation and Payments Financing**

Bonn is convinced it has been doing its share to support global recovery by, among other things, maintaining strong import growth and permitting a steady appreciation of the mark. In addition, the government recently approved a \$6 billion medium term infrastructure program that will be activated as necessary to stimulate growth. More so than the US, Bonn is afraid that additional expansionary measures would generate more inflation than growth or employment. As a sign of solidarity, however, Schmidt probably would be willing to commit his government to make every effort to meet its 5 percent real GNP growth forecast.

Schmidt also will strongly endorse the continued provision of financial assistance to deficit countries. Along with the US, he will urge that such aid be channeled through the IMF because the Fund is better equipped than individual creditors to attach fiscal and monetary conditions. Schmidt will approve an increase in IMF quotas, but would be reluctant to agree to further SDR creation.

### **Trade**

Worried about the threat of protectionism because of its export dependency, Bonn fully supports US efforts for early agreement on further tariff reductions as well as extensive removal of nontariff barriers. In contrast to the views of some EC partners, West Germany has no strong preference for any special formula for tariff reduction. Also, as the largest agricultural importer in the EC, Germany has been more amenable than other EC members, notably France, to US proposals for linking negotiations on industrial products to those on agricultural commodities.

### **Energy**

For Bonn, nuclear technology will be the most important topic at the summit. While fully sharing US concern over nuclear proliferation, the Germans insist they

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are following through on the agreement with Brazil because it complies with all applicable safeguard arrangements including the NPT. Schmidt has said that Germany will abide by any international agreements on nuclear exports provided it is assured of nondiscriminatory treatment for its nuclear industry.

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With almost no domestic oil reserves and coal deposits increasingly difficult to mine, West Germany will remain dependent on foreign energy sources. Bonn envisions a reduction in energy consumption growth as a result of conservation measures and some shift from oil to nuclear power. To what extent this shift can be achieved is unclear, however, because of the mounting controversy over nuclear power plant construction. Under the circumstances, Bonn would not be able to support a specific target for reducing its dependence on imported oil. Since German per capita energy consumption already is significantly below that in the US, the Germans probably also would reject a proposal that West Germany match a US energy conservation effort.

#### **North-South Relations**

With views closely paralleling those of the US, Bonn rejects the LDC demands for widespread regimentation of commodity trade and looks to US leadership to help shore up the industrial country position at CIEC. Bonn favors further reduction of barriers to LDC exports, extension of the EC's export earnings stabilization scheme, and additional aid primarily through international bodies. The Germans, however, are willing to accept selected commodity agreements and would agree to some common funding arrangements that acted merely as a financial clearing house for individual buffer stock mechanisms. Much more than other EC countries, Bonn would seek reciprocal concessions from the LDCs, including guarantees of security for investments in LDCs. Bonn also urges the Soviet Bloc be tied into agreements reached on North-South issues.

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## France

Two particular factors that will affect the French mood at the summit are the Concorde situation and the upcoming French National Assembly elections. A favorable resolution of the landing rights controversy would put the French into a more cooperative mood, though probably not change the outcome of any discussions. The elections issue may be more crucial. Because the Socialist/Communist coalition now has an excellent chance of winning, Giscard would like to milk some political capital from the summit while at all costs avoiding any impression of bowing to US pressure.

### The General Economic Situation and Payments Financing

The French feel that the Big Three countries should take the lead in fostering global expansion and would like a commitment from them to achieve *at least* their forecast growth rates for 1977. This view applies particularly to West Germany, a far more important customer to France than Japan or the US. At home, Paris remains committed to the Barre stabilization program, which recently has begun to produce results. Domestic policy continues to be almost wholly dictated by electoral considerations, and at present the voters seem the most concerned about inflation.

French views on balance-of-payments financing should not conflict with those of the US. In particular, the provision of additional funds for payments support through the IMF would contribute to French goals of stabilizing exchange rates and forestalling additional protectionist measures on the part of deficit countries.

### Trade

Paris probably will be generally reluctant to make commitments on trade liberalization. In part the French feel victimized by the Concorde affair, which they see as an example of US protectionism. More importantly, protectionist pressure is mounting within the French government, as a means of dealing with unemployment.

The French probably will oppose setting ambitious Multilateral Trade Negotiations (MTN) targets such as bettering the Kennedy Round results. Paris never really approved the current trade round, feeling that the international monetary system should be stabilized before further tariff cuts are made. The French argue that it is foolish to wrangle over tariff cuts of a few percent when exchange rates can fluctuate widely. They feel some countries have deliberately allowed their currencies

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to depreciate to gain a competitive advantage—a practice they have dubbed “monetary dumping.”

Paris also may be leery of liberalizing grain trade, possibly seeing it as an implied threat to the Common Agricultural Policy. On the other hand it should approve the idea of stabilizing grain prices, partly by establishing an international reserve system. Finally, they might push for a US commitment to eliminate the American Selling Price System.

### **Energy**

While the French share common energy goals, such as reducing dependence on imported oil, with other developed countries, they frequently feel they can achieve more on their own than through international cooperation. They continue to reject membership in the IEA and may object to any implication that France should match the US effort to reduce dependence on imported oil. The French feel the US has lagged badly in this area and probably would resent the idea of Washington now setting itself up as the model for others to emulate.

The particular field of nuclear energy obviously offers much greater possibilities for disagreement. While Giscard is far more concerned about the dangers of proliferation than other French leaders have been, he also has vigorously asserted that France will make its own decisions in this area. The French thus are likely to be wary of suggestions that there be international consultations on nuclear energy, viewing them as a potential threat of foreign interference in France's ambitious nuclear program, especially its fast breeder reactor development.

### **North-South Relations**

North-South relations is an area where France and the US should generally be in agreement, although France will continue its long-standing efforts to maintain a special relationship with the LDCs. Paris currently intends to increase the volume of its aid. As in the past, the French will push strongly for the conclusion of agreements to stabilize prices of important commodities, but do not want a common fund to be any more than a pooling of the monies needed to operate the individual buffer stocks.

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### United Kingdom

The British view the summit as an opportunity for major Free World leaders to gain a better understanding of each other and to air problems of common concern. Their primary objective is to provide a strong psychological boost to consumer and investor confidence throughout the world.

#### General Economic Situation and Payments Financing

The British feel strongly that the GNP growth forecasts of the economically stronger developed nations should be viewed as targets and that the Big Three countries should publicly commit themselves to achieving targets. At home, the Labor government intends to keep a rein on public spending and hopes to conclude an agreement with the trade unions limiting wage increases for a third year as part of its fight against inflation. Unemployment also is viewed as a major problem. Because London is constrained in its own effort to reduce unemployment, it has repeatedly stressed the need for a worldwide attack on the problem.

As to payments financing, the British feel that private banks are rapidly reaching the limits of their ability to finance deficit countries. They believe official financing is too limited, too short term, and too conditional to meet international needs. In line with the US position, London sees advantages to some additional financing facilities linked either to the IMF or the World Bank.

#### Trade

The United Kingdom is concerned over what it perceives as a growing trend toward protectionism and would endorse a general statement eschewing trade controls. However, the British want to retain freedom to impose selective measures when an industry is threatened and jobs are at stake. [REDACTED]

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London has dragged its heels on MTNS, fearing that broad tariff cuts would further impair the country's competitiveness. In a retreat from their traditionally liberal trade stance, [REDACTED] any MTN tariff deal ought to be less deep-cutting and subject to more exceptions than the Kennedy Round formula.

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## **Energy**

In part reflecting the United Kingdom's wealth of domestic energy, British and US views on energy issues are very close. Although Britain currently is focusing on the exploitation of North Sea oil and gas, its longer term strategy calls for more conservation and increased use of coal and nuclear power. Britain would have no trouble setting oil import targets but would not want to involve itself in any pledge to help other countries reach theirs.

London has not yet decided whether to proceed with construction of a commercial fast breeder reactor. A royal commission has urged delay, while the weight of technical opinion is that Britain should use its fast breeder technology to capture a share of what is expected to be a large world market. The British agree with the intent of US efforts to halt proliferation and will probably cooperate in devising international restrictions on the transfer of sensitive technology and the availability of plutonium.

## **North-South Relations**

The British position on North-South issues is generally in line with that of the US. Given Britain's current financial constraints, London is unwilling to commit itself to any potentially costly aid proposals. The UK is opposed to the common fund demanded by the LDCs, favoring instead individual commodity agreements to stabilize prices. London would prefer to help the LDCs through programs such as liberalized treatment of manufactures and increased multilateral assistance. For instance, to help quiet LDC demands for debt relief, London recently proposed that the developed countries make a special contribution of \$1 billion to the International Development Association.

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**Italy**

Well aware that their shaky political/economic situation places them in a vulnerable position, the Italians will try to maintain a low profile at the summit. Wherever possible, Rome will blend in with the majority opinion; when two major powers disagree, the Italians will try to steer a middle course to avoid antagonizing either party.

**The General Economic Situation and Payments Financing**

Rome will seek a precise and strongly worded commitment from the Big Three countries to achieve forecast growth rates. Forced by high inflation and balance-of-payments pressures to restrain internal demand, Rome sees export expansion as the only safe road to prosperity and jobs. Italian policy makers are concerned that the current growth in world output is too sluggish to support continued rapid expansion in world trade volume. In discussions about anti-inflationary policies, the Italians may lie low, fearing they will be pressured to deal more aggressively with the politically dangerous issue of domestic wage reform. On the other hand, Rome will participate actively in talks on youth unemployment, which it views as one of its most pressing social issues; the Italians might even request international funding or coordination of youth employment programs.

Since the \$530 million loan now under negotiation will exhaust their regular credit tranches at the IMF, the Italians will heartily endorse proposals to supplement the Fund's borrowing arrangements. They might, however, suggest that the IMF show more flexibility in setting loan conditions. Rome also conceivably could advocate new monetary arrangements whereby gold—of which it possesses substantial reserves—can be exchanged for liquid assets.

**Trade**

Dependent on exports to buoy domestic growth, the Italians will seek a forceful condemnation of trade protectionism. Though occasionally lapsing into thinly disguised trade controls themselves, they traditionally have been strong advocates of trade liberalization in international forums. Rome probably would support swift completion of MTNs. The Italians support proposals for industrial tariff harmonization because they would like to reduce tariff rates on certain US manufactured goods; they are especially loath to discuss export subsidies since their vast system of state enterprises makes them vulnerable on this point.

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## Energy

With no expandable domestic energy sources and a nuclear program quagmired in problems of site selection and financing, Rome has little hope of reducing oil dependency in the short run. As a result,

- The Italians would probably only agree to set targets for reduced oil dependence contingent on international financial support for their nuclear program.
- Rome is unlikely to endorse plans for an increase in coal utilization. With domestic coal no more abundant than oil, coal usage offers little to Rome in terms of import substitution. Recent energy policy has been to discourage coal in favor of natural gas.
- Rome sees plutonium reprocessing and fast breeder reactors as a vital sequel to its conventional nuclear program and will probably stand with the other Europeans in opposition to any US attempts to halt reprocessing of US uranium.

## North-South Relations

Rome sets great store on maintaining good relations with the LDCs and tends to look favorably on LDC commodity proposals. The Italians, however, will stick close to their EC brethren on commodity issues and would probably balk at making any commitments to raise aid volume because of their own financial problems.

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**Canada**

More than most other countries, Canada hopes that substantive progress can be made at the summit on overcoming the sluggish pace of world trade growth and dealing with oil-related balance-of-payments problems. Canada is probably the only summit attendee that can wholeheartedly support the US stance against nuclear proliferation.

**General Economic Situation and Payments Financing**

Although concerned about global economic expansion, Prime Minister Trudeau has given little public attention to the issue because he is preoccupied with domestic problems, particularly the threat of Quebec separatism. Nonetheless, Ottawa's hopes for buoying domestic economic growth depend heavily on growing demand in industrial countries for Canadian exports. Ottawa supports the view that countries with current account surpluses should stimulate their economies as rapidly as is consistent with keeping inflation under control, while countries with deficits should pursue slow growth policies. Ottawa recently reaffirmed its own tough anti-inflation stand by continuing wage/price controls despite sluggish economic growth and record high unemployment.

Canada is a strong supporter of international financial arrangements for countries with oil-related balance-of-payments problems and would probably be willing to contribute more. It also wants assistance given, however, only after all other sources of financing, including private credits, are exhausted. Ottawa would prefer to see assistance linked to recipient government efforts to curb inflation.

**Trade**

As a leading commodity exporter, Canada has an important stake in current efforts to liberalize international trade. Its main objectives at the MTN and other negotiations are to reduce tariff and non-tariff barriers on processed raw materials and to improve access in foreign markets for Canadian manufactured goods. Ottawa is supporting a general tariff reduction formula but is skeptical that it can work. Consequently, it has pushed hard for sectoral negotiations that would link foreign concessions on manufactures to Canadian supply guarantees for raw materials. As for grain trade, Ottawa is interested in pursuing producer-consumer talks on linking wheat price stabilization with the formation of international buffer stocks.

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## **Energy**

Facing a growing energy trade deficit, Canada plans to reduce its dependence on imported oil to a third of domestic needs by 1985. Ottawa is having difficulty, however, implementing policies necessary to meet this target; disputes over federal-provincial control of energy resources and disagreement over tax/pricing policies are blocking more rapid development of domestic resources. Ottawa already is planning to slow energy consumption growth through a combination of mandatory conservation standards, tax incentives, and gradually rising prices. Internationally, Ottawa firmly supports the US position on nuclear nonproliferation and has recently suspended exports of uranium in an effort to persuade foreign buyers of Canadian uranium, nuclear reactors, and nuclear technology to sign safeguard agreements giving Canada much greater control over the use and transfer of Canadian-supplied materials.

## **North-South Relations**

Ottawa is sympathetic to some of the trade demands made by the LDCs because concessions on processed raw materials would also benefit Canada. It generally favors agreements aimed at stabilizing international prices of industrial and agricultural commodities, but would probably support only a very limited common financing arrangement for buffer stocks. As for wider access to domestic markets for LDC manufactures, complaints from several Canadian industries have made Ottawa reluctant to move rapidly ahead on this issue.

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### **The European Community**

The EC will be represented at the Summit both by Roy Jenkins, President of the EC Commission, and by Prime Minister Callaghan in his role as President of the EC Council. On many issues the EC heads of state disagree with Commission viewpoints. Jenkins will insist that his participation in the conference be as complete as possible and explicitly recognized in the communique. Representation of the Commission is a matter of great importance to governments of the five small Community members.

### **The General Economic Situation and Payments Financing**

The Commission advocates differing economic growth policies, depending on the circumstances of each country. At one extreme, it believes that West Germany needs to stimulate investment more vigorously than now planned in order to realize the West German forecast of 5 percent real GNP growth. At the other, it has urged more restrictive policies in Italy and has applauded those already in effect in France and the UK. To help slow inflation the Commission usually recommends an incomes policy and in some cases manipulation of exchange rates. In the area of payments balances, Commission members favor expansion of multinational lending facilities, and Jenkins will endorse efforts to supplement the IMF capacity to aid deficit countries.

### **Trade**

The EC Commission, which is under pressure for protectionism from various industries as well as member governments, will welcome a strong endorsement of liberal trade policies. The Commission has blunted attempts to retaliate against the US for imposing quotas on imports of specialty steel; it has publicly declared its pleasure with the President's decision on footwear. Although Commission members talked tough earlier this year to get Tokyo to reduce its huge trade surplus, they have avoided retaliatory measures by seeking to negotiate voluntary restraints with the Japanese.

The EC has long felt the US was holding up progress in the MTN, particularly by insisting on treating agricultural tariff reductions in conjunction with reductions for other goods. The Commission equally strongly wants to avoid having to make concessions on agricultural products to gain concessions on manufactured goods.

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The Common Agricultural Policy, which includes levies designed to protect EC farmers from lower-priced agricultural imports, is the Community's major endeavor toward economic union.

The Commission is receptive, but still wary, toward recent US initiatives on grain trade and reserves. Since the Commission always has maintained that reserves should be used in part as a price stabilization mechanism, it sees US willingness to discuss stabilization as a step in the right direction. It would argue, however, for price bands that would not require any adjustment in the EC's heavily subsidized prices.

### **Energy**

The Commission has been trying to convince members of the urgency of reducing their heavy dependence on oil imports. Thus it would welcome the catalytic effect of a major US conservation effort. Mindful that even with North Sea oil and nuclear power the EC still will depend on foreign oil for some 40 percent of energy supplies by 1985, the Commission has been critical of continual pressure in world oil supplies and prices generated by growing US import demand.

On nuclear issues, the Commission shares the view of the member states that the US must make a clear distinction between nonproliferation matters and the peaceful use of nuclear energy. It is particularly disturbed by the US delay in shipping highly enriched uranium for research reactors, claiming that confidence in US-EC commercial relations has been shattered.

### **North-South Relations**

On North-South issues, the Commission generally has trod a middle road between the Dutch and the conservative West Germans. The commissioners were gratified by the heads' of government decision in March to support a common fund to finance commodity buffer stocks. While aware that the EC decision created some consternation in Washington, the commissioners argue that the EC went no further than US officials indicated the US is willing to go. To spur the EC to take the initiative rather than be a US follower, the Commission sometimes has tried to push commodity and aid proposals more expansive than the member states are willing to adopt. Some commissioners, supported by Roy Jenkins, even have talked of a new Marshall Plan for LDCs.

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